

As Approved by the Interim Committee

**PROPERTY TAX INTERIM COMMITTEE
ROOM 420–GOLD ROOM
SEPTEMBER 13, 2005
9:00 a.m.
Minutes**

The meeting was called to order at 9:00 a.m. by Cochairman Senator Shawn Keough. Other committee members present were Cochairman Representative Dennis Lake, Senator Brad Little, Senator John Goedde, Senator Monty Pearce, Senator Tim Corder, Senator David Langhorst and Senator Elliot Werk, Representative Bill Deal, Representative Gary Collins, Representative Mike Moyle, Representative Eric Anderson, Representative Wendy Jaquet and Representative George Sayler. Staff members present were Mike Nugent, Paige Parker, Jason Hancock and Toni Hobbs.

Others present were Dan Chadwick, Idaho Association of Counties; Steve Ahrens, Idaho Association of Commerce and Industry; Ernest Jensen and Cliff Green, Idaho School Boards Association; Guy Wangsgard, Idaho Falls District 91; Ken Harward, Jerry Mason, Kerry Ellen Elliott, Association of Idaho Cities; Freeman Duncan, Kootenai County Property Tax Task Force; Mike Friend, Idaho Association of School Administrators; Jan Wall, Idaho State Library; Matt Ellsworth, Centra Consulting; Jim Shackelford and Sherri Wood, Idaho Education Association; Roger Sherman, United Vision for Idaho; Norm Semanko, Idaho Water Users Association; Mike Reynoldson, Micron and Neil Colwell, Avista.

After opening remarks from the cochairmen, it was agreed upon by the committee that approval of the minutes of past meetings would be postponed until the next meeting of this committee.

Mr. Ernest Jensen, President of the Idaho School Boards Association (ISBA) was introduced as the first speaker. **Mr. Jensen** explained that ISBA is an association of 560 publicly elected trustees across Idaho. He said that he wanted to convey that the ISBA is very willing to be part of a solution addressing state tax policy and its effect on public education.

Mr. Jensen started with their vision. According to him, we must answer the question of what it is we, as a state, want in a public education system before we address how to pay for it. He said that currently there are in excess of 115 different visions because there are 115 school districts, charter schools and government. Each have their own vision of what education means.

Mr. Jensen said that costs that relate to this vision are those that are mandated by the state and federal governments. Costs related to this vision also include ISAT, No Child Left Behind and others. Local residents also have ideas about what they would like education to include that also add to the costs.

Mr. Jensen went on to discuss policy and structure reform. He said that one area that needs to

be looked at is the fact that education is a most important function in our society. In Idaho that function is derived both legally and morally. We have a moral responsibility to educate the masses. There are numerous examples of what happens when the masses are not educated.

Mr. Jensen said that ISBA for the past three years has been working on a plan to increase the quality of training to their trustees. This is to train them to be better to make them more responsible school board members. The plan is for these trustees to be better able to make sure their district is being operated efficiently and effectively for their community. He said that areas such as revenue and budgeting policy and negotiations with the teacher labor union still need to be addressed in this training.

Mr. Jensen stated that 85% of a school district's budget goes for salary and benefits of the staff. That leaves 15% for M&O. He said that ISBA looks forward to working with the state legislature to explore a new array of alternatives for compensation which will give local boards of education additional control over resources. They believe it is time to get past the rhetoric that public education is wasteful. He said that ISBA is willing to open the books and let the legislature look at the details as to how the money is actually spent.

Mr. Jensen suggested the following as solutions to the issue.

- , Fund education on the current property tax model or change to a state funded model.
- , Have either local or state funding.
- , Move from a market value driven property tax funding stream to sales tax.

Mr. Jensen said this option would be difficult because of the volatility of state revenues. Relying on sales tax to fund education would increase the need for a "savings" or "rainy day" fund as a mechanism to stabilize the fluctuations in revenues.

- , Individual and Corporate Income Tax.
- , Impact Fees.
- , Local Option Sales Tax.

Mr. Jensen said local option sounds promising but is also problematic because there is little opportunity to collect in rural areas and it cannot be distributed from urban to rural because of the "voting issues": i.e. taxation without representation...

Mr. Jensen reiterated that it all comes down to what we, as a state, see as the type of education system we want for our children. Do we want a system where the state budget figure \$987m is the defacto minimum or one where the board is given the option to create a more holistic education.

Mr. Jensen said that the ISBA feels that a common vision of what education should be is important. They have suggested a policy makers forum involving trustees from around the state, legislators, someone from the Governor's Office and so on so that the vision involves everyone.

In response to a question from **Representative Jaquet**, **Mr. Jensen** said the ISBA does not have a resolution regarding the \$75 million property tax replacement cap. He said that they would like to see it removed but understand how expensive that would be for the state.

Representative Sayler asked if **Mr. Jensen** was aware of the proposal from the Post Falls School District to raise the sales tax to six cents, dedicate ½ of that to property tax relief and use the other ½ for schools. **Mr. Jensen** said he was aware of it and the ISBA will discuss it at their annual meeting in November. In his opinion this might be a good option.

Senator Little asked if the ISBA has a position on having a statewide salary for all teachers in the state and whether the diversity and cost of living differences come into play in these types of discussions. **Mr. Jensen** said this is a difficult question. He said that to teach our children the way we want them to be taught, we need the teachers that we have. In his district last year two elementary schools were closed because they did not have that many children. This will put them at an optimum staff for another year and then they will have to start hiring again.

In response to a question from **Representative Lake**, **Mr. Jensen** said moving from property tax based funding for M&O to sales tax based funding is an option but it depends how the revenue would be shared. He said the districts would be better served knowing how much money they are going to get ahead of time.

Senator Goedde asked, regarding transportation, how there is efficiency in a system that pays 85% of whatever was spent the previous year. **Mr. Jensen** said that it is very difficult to make those adjustments in the 15% the districts have for M&O. Fortunately transportation comes under SPFF fund although the M&O of it does not. Idaho Falls cut costs because they decentralized transportation and made children walk farther to catch the bus. **Senator Goedde** agreed that Idaho Falls did the right thing but other districts in the state, instead of fixing the problem, tried to get away with something.

In response to another question from **Senator Goedde**, **Mr. Jensen** said that he would have no idea where the ISBA will stand regarding moving funding of maintenance and operation to the state level.

Senator Keough asked if the ISBA has looked at the various property tax initiatives that are being discussed and if so where do they stand. **Mr. Jensen** said they are aware of the initiatives but have not had time to prepare any comments. These initiatives were not considered in his solutions.

Representative Jaquet asked if some school districts in Idaho Falls are growing and if so have they thought about consolidation. **Mr. Jensen** said that the Bonneville School District is growing while Idaho Falls is losing students. He said the two districts work together and have joined several special programs. The person in charge of the professional technical program is paid ½ by Bonneville and ½ by Idaho Falls, some special ed people are hired similarly and so on.

There have been cursory discussions among board members about consolidation but there is so much diversity they cannot come to terms.

Senator Little said that Bonneville and Idaho Falls School Districts are similar to Boise and Meridian. He asked for the ISBA to prepare some discussion points about how to take care of the funding issues caused by urban districts that are losing students while suburban or rural districts are gaining. **Mr. Jensen** said he would get that for the committee.

Mr. Dan Chadwick, Idaho Association of Counties, was the next speaker. He stated that in reviewing the comments he has heard regarding the property tax issue he has found that there is a lot of anger, frustration and there seems to be a disconnect between the use of the taxes and the collection of them. The comments were mostly about property values increasing as well as taxes, not about what the taxes are being used for. In his opinion this will have to be addressed at some point so that citizens understand what their property taxes are being used for.

Mr. Chadwick said that in his opinion the approach that the legislature takes to resolving the issue of property taxes needs to be rational, balanced and will have to restore the public's confidence in the property tax system.

Mr. Chadwick said that the Association of Counties has two perspectives regarding the property tax issue. They are users of the property tax because the counties deliver services but they are also the administrators at the local level of the property tax system. They administer that system for the entire state or all of the taxing districts by assessing values, setting levies and collecting the taxes.

Mr. Chadwick explained that the following solutions are the suggestions of the Association of Counties:

- Increase the homeowners exemption to \$75,000 to \$100,000; include the land and perhaps index the exemption to inflation.

Mr. Chadwick said they realize this does cause a shift to other classes of property but the system has gotten out of balance over the years and this may help bring it back in line.

- Repeal the rural homesite exemption (HB488)

Mr. Chadwick said this started out as a pretty good idea and turned into one of the more unfair exemptions that exists in the entire property tax system. In his opinion this exemption cannot be fixed, it needs to be repealed and rethought.

- Review all other property tax exemptions. Consider their fairness and balance and whether they meet the policy expectations of the Legislature.

- Require full sales price disclosure to the county assessor to insure the accuracy and uniformity of value established by the assessor.

Expand the circuit breaker by either increasing the qualifying income thresholds or raising the state caps on reimbursements or both.

Study whether deferral of taxes is an appropriate option for Idaho.

Modify impact fee statutes to make them more useable; streamline the process; consider amending the lifespan of projects; and perhaps expand the purposes for which they can be used.

Amend the urban renewal law to require county approval for the establishment of new districts. Value increases are not made available to other taxing districts that must provide additional services that result from the growth.

Provide local option authority for special projects and property tax replacement.

Mr. Chadwick said that this has been very successful in Nez Perce and Kootenai Counties where they are building new detention facilities. He noted that local option is a limited program that not every county or jurisdiction will be able to use. He said one way to make it available to all taxing districts, schools, counties and cities would be to regionalize the use of local option taxes with money being redistributed back on some type of formula basis.

Consider real estate transfer taxes to help deal with growth issues.

Enact public infrastructure district statutes to provide for funding for infrastructure for new development.

Mr. Chadwick said that he has not addressed expenditures and maybe getting a handle on expenditures is the answer to the property tax increase issues in Idaho. He stated that counties could make cuts to county extension, parks and recreation, senior programs, transportation services, county fairs and such to save property tax dollars. In his opinion this will not meet the relief that is expected. He said that consolidation of services is another way this issue can be addressed; consolidate planning and zoning services on a larger than city or county basis; consolidate law enforcement; emergency services; environmental services and such. Another way to cut expenditures would be to replace property tax dollars with other sources of revenue for mandated services at the county level such as indigent care.

In response to a question from **Senator Little** regarding urban renewal, **Mr. Chadwick** said that he was talking about the incremental value that is created with the creation of urban renewal districts and that that value does not necessarily go on the tax roles for all districts within the urban renewal area.

Senator Pearce asked if the homeowner's exemption was increased, how much would that shift over to other property. **Mr. Chadwick** said that the State Tax Commission has calculated what that would be for a homeowner's exemption of \$75,000, 100,000 and possible \$150,000 and that he would get that information for the committee.

Senator Pearce asked if numbers were available showing how much impact fees would increase the cost of the houses being built. **Mr. Chadwick** said that he did not think that information was available because there is not a lot of experience with that at this time. It would have to be on a

case by case basis. **Senator Pearce** commented that growth has actually helped improve Idaho's economy and cautioned doing anything to dampen it. **Mr. Chadwick** said he was not sure impact fees would have a dampening effect on growth. He said that the potential use of impact fees would allow for the immediate construction of capital needs that the growth calls for. Things like roads, fire stations and water and sewer facilities.

Senator Langhorst asked if consolidation of services is something the counties see the legislature mandating or would it be done locally through negotiation. **Mr. Chadwick** said that currently consolidation can only be done locally through voluntary agreement.

Senator Goedde asked if the Association of Counties has decided not to support using a five year rolling average for valuations as an option. **Mr. Chadwick** said they have looked at it but have not taken a position either way on that.

Senator Werk stated that there was a lot of talk throughout the state about assessors and what they have and have not been doing. He asked whether relieving the counties of the assessment process and moving it to the state would be helpful. **Mr. Chadwick** said he did not know how much difference that would make. The rules will remain the same as will the training. In his opinion using a state system would be more difficult because local conditions may escape consideration. **Senator Werk** asked for information showing how much it would save the counties if the state did take over the assessment task. **Mr. Chadwick** said he would get that for the committee.

Representative Jaquet asked for information showing how much would be saved by the counties if the state were to take over capital prosecution of crimes and to pay for the court clerk that counties are required by the state to have but does not pay for. **Mr. Chadwick** said he would get that. He explained that the capital crimes defense fund is funded as a joint exercise of powers program. This is a program where each county is assessed and money is provided only for defense costs in capital cases. They assess \$600,000 as of the next fiscal year for this fund. He said \$1.7 million has been spent in the last seven years. The cost of providing law clerks to the courts runs in the \$3 to \$4 million range annually.

Representative Lake said that the state had a real estate transfer tax in the past that went away about the time the sales tax was implemented. He asked why it would be a good idea to reinstate it now. **Mr. Chadwick** said that he did not know the history of that tax. He said they are looking at the transfer tax as potential one time replacement dollars much like the impact fee would be. He said the sales tax replaced the statewide property tax and that may have been the reason the transfer tax went away but he was not sure.

Senator Keough asked the Association of Counties to submit any specific changes they would like to see to the impact fee statutes in writing. **Mr. Chadwick** said they did not have anything specific. He said that time frame, planning requirements and uses are issues they are talking about regarding the impact fee statutes. **Senator Keough** asked if he could get more specifics by October. **Mr. Chadwick** said he would do that.

Representative Jaquet said she would like information showing how many people would be affected in each county by a repeal of HB488. **Mr. Chadwick** said they will try to find out who is benefitting from that exemption.

Representative Jaquet said she knows that some assessors are working on changing the personal property statute by adding a minimum dollar amount. She said she would like to see what affect that would have.

Mr. Ken Harward, Association of Idaho Cities, was the next speaker. He explained that there are now 200 incorporated cities in Idaho with populations ranging from 10 to over 190,000 and that the property tax law affects all cities in a similar manner. He said that over 2/3 of Idaho residents live within cities. Idaho cities are tremendously diverse in terms of size, geography, services provided and public demand for services. Idaho has only one city with a population over 100,000 and 124 cities that have under 1,000 in population.

Mr. Harward gave the following breakdown of where the local property taxes for 2004 went. The total collected was \$1,140.8 million.

Entity	Amount received
Schools	\$487.8 million
Counties	\$263.4 million
Cities	\$246.0 million
Roads/Highways	\$ 60.3 million
Fire Districts	\$ 34.9 million
All others	\$ 48.4 million

As far as funding of essential services, **Mr. Harward** said that in any city the lion's share of money goes to public safety.

Mr. Harward gave the following suggestions from the Association of Idaho Cities regarding the property tax issue. He said these were being presented as general concepts and would be happy to come back to the committee with more specifics at a later date. **Mr. Harward** said that the Association of Idaho Cities full legislative committee will be meeting on September 16, 2005 and at that time they will spend a large amount of time on the property tax issue.

Their suggestions include:

- Preservation of the New Construction Growth Factor in the Calculation of the Tax Levy. This allows cities to plan for and keep up with new growth.
- Elimination of the Rural Development Exemption or HB488.

Streamline the Impact Fee Process.

Mr. Harward reminded the committee that the Idaho Impact Fee statute is meant to facilitate new growth, not to slow or diminish it. The law says that it funds capital services that enables growth to occur. He said the cities have thought to establish a threshold amount that would have less administrative burden placed on establishing impact fees under that amount. There is already a constitutional requirement to have those fees be in proportion to the benefits to that property.

Targeted Local Option Tax Authority, Including Removal of Population Cap on Resort Cities.

Consider Increasing Homeowners' Exemption & Circuit Breaker.

Mr. Harward said that they believe there is a responsibility on cities to look at ways to improve service delivery. He said they have created a city/county task force that is working together on issues of service delivery and if there are redundancies that can be eliminated and such.

Senator Goedde asked regarding annexation, why cities want to expand or annex against the will of residents. **Mr. Harward** said that annexation authority and responsibility has been part of state law since statehood. It is not a new concept. Annexation can be initiated by the city or at the request of property owners. Most annexations in Idaho occur because of property owner request.

Mr. Harward explained that in the Idaho Local Land Use Planning Act there is a mandate that cities comprehensive plan includes planning for the future and that includes things like roads and sewage treatment plants. In order to implement these plans, cities must have a way to expand their borders for orderly growth. This is handled differently throughout the state.

Representative Moyle asked how cities can plan for this growth when they do not control the services such as in Eagle where they do not own the sewer. He also asked what happens when cities have overlapping plans. **Mr. Harward** said that it is difficult and it points out the necessity for the legislature, cities and counties to look at the current statute dealing with the area of city impact. In his opinion this needs to be updated and improved.

Senator Little asked for advice regarding the ramification of any of the proposed changes and what that might do to create more taxing districts rather than consolidating them. **Mr. Harward** said that by state law, cities and counties are supposed to be general purpose governments and should be looked at to provide services without the creation of special taxing districts. The inability for cities in other states to expand their borders had led to more special purpose taxing districts.

Senator Little asked if elimination of the cap would reduce property taxes by eliminating the need for so many special taxing districts. **Mr. Harward** said that since the legislature created the cap, they are being looked at to do something about the problem instead of looking at those

who levy the taxes. He said that there is information showing all of the levies of all 200 cities in Idaho that goes from zero to \$9.00 per \$1,000. To a large extent those cities' destiny was determined by the 1% initiative in 1978 and the subsequent caps that were placed. He said it is a challenge for a growing city to keep up with services when they are capped. According to **Mr. Harward** there is no way to predict whether removing the cap would lower property taxes but it would put the responsibility back where it needs to be.

Mr. Jason Hancock, Legislative Services Budget and Policy Office, was the next speaker. He was introduced to discuss a survey that he submitted to committee members based upon the information that was received during the public hearings. This survey asked the members to identify major issues and solutions from these hearings so that the committee could decide what direction to move. Fourteen surveys were sent out and eleven were returned.

The following is a list of the major problems that were identified. The number in parenthesis indicates how many members thought the items was a major issue.

- , Local government spending (2)
- , Too many tax exemptions/examine validity (3)
- , Property values growing too rapidly (4)
- , Property taxes not related to ability to pay (6)
- , Lack of alternative local revenue sources (3)
- , Tax burden shifting to residential taxpayers (3)
- , Growth not paying for itself (3)
- , System favors developers
- , Assessment process too uniform (2)
- , Assessment process not uniform enough (3)
- , Assessor skills sometimes inadequate (2)
- , Burden of fixed school M&O rate (3)
- , Examine what property taxes should pay for

This above section just asked the members to write down what they saw as the major problems with the property tax system in Idaho.

Policy areas identified as problems included:

- , Assessments/Valuation (9)
- , Shift Property Taxes (9)
- , Replace Property Taxes (11)
- , School M&O levy (11)
- , Local Government Budgets (7)
- , Other (7)

Mr. Hancock's survey went on to breakdown these above policy areas into more detail as follows.

Assessments/Valuation

- < Require disclosure of purchase price (9)
- < Freeze values at purchase price (5)
- < Limit annual assessment increases (7)
- < Tax land & improvements differently (5)

Mr. Hancock explained that the responses under *other* in each section asked committee members to write down something they thought was important rather than being given a list to choose from so the responses are more varied.

- < Other
 - C Separate assessments from market value
 - C Use rolling average for assessments
 - C Improve uniformity of assessments
 - C Income basis for residential assessments (2)

Shift Property Tax

- < Increase the 50-50 homeowner exemption (8)
- < Index 50-50 exemption to inflation factor (8)
- < Include land value in 50-50 exemption (9)
- < Defer property tax increases until sale (8)
- < Repeal/phase out “developer exemption” (11)
- < Exempt disabled vets/fixed income/elderly (4)
- < Other
 - C Exempt handicap access improvements
 - C Increase exemption/repeal personal property taxes (3)
 - C Homeowner exemption tiered with home values
 - C Consider repealing some property tax exemptions (3)

Mr. Hancock explained that he broke the *Replace Property Tax* section into two parts because of the number of proposals that fall under the category.

Replace Property Tax - Part 1

- < Replace with local option taxes (9)
 - C Real estate transfer tax (4)
 - C Increase/expand impact fees (3)
- < Local occupancy (hotels/motels, etc.) tax
- < Increase vehicle fees

Replace Property Tax - Part 2

- < Replace with state revenues (11)
 - C Increase “circuit breaker” (6)
 - C Broaden Sales Tax to fund relief (3)
 - C Repeal Income Tax cuts to fund relief

- C State assume costs of some local programs (4)

School M & O Levy

- < Replace School M&O with state revenue (9)
- < Put School M&O under 3% budget cap (6)
- < Exempt seniors from paying School M&O (1)
- < Other
 - C Take cap off Property Tax Replacement and remove the line-item from the Public Schools budget (off-budget)

Mr. Hancock stated that the section below received the lowest level of support from committee members. None of the items listed for them to circle as important received seven or eight positive responses. The two that had the most support were the ideas of either prohibiting or limiting local government's ability to levy for foregone balances and the idea of consolidating school districts at the county level.

Local Government Budgets

- < Prohibit/limit levying for "foregone balances" (5)
- < Only allow new construction to be added to budgets on a one-time basis (2)
- < Include annexed property under 3% cap (3)
- < Reduce 3% budget cap (1)
- < Limit property taxes to a certain percent of assessed values (3)
- < Consolidate school districts at county level (5)
- < Other
 - C Improve public participation in local budgeting
 - C Allow lowering of levies by local voter initiative

Other Proposals

- < Improve availability/affordability of reverse mortgages (5)
- < Refund leftover money to former owner when property is sold for back-taxes (7)

Senator Goedde asked how equalization would be affected by shifting the M & O to sales tax.

Mr. Hancock said in his opinion, equalization would not be affected at all by this for the vast majority of districts. If the M & O levy was eliminated and replaced with state money, each school district would get the entire amount they are entitled to under the equalization formula from the state instead of part of it coming from the M & O levy or local property tax.

He noted that there are three or four exceptions to this that include Donnelly and Blaine County that raise much more money off of their local M & O levy than the formula entitles them to get. Elimination of the M & O in these cases could result in them losing money. **Mr. Hancock** said in these situations the difference could somehow be converted into a type of supplemental levy that would keep them level with the funding they currently have. In response to a question from **Representative Lake**, **Mr. Hancock** noted that these supplemental levies could also be left up to the voters in each district. He also explained that the state would not replace the entire

amount these areas with high property values are currently generating, it would only replace the amount they are entitled under the equalization formula.

In response to another question from **Senator Goedde, Mr. Hancock** said that any time a tax shift such as this is proposed, the amount of property tax saved will vary from district to district.

It would be a shift from those paying the M & O levy to those paying sales tax. **Senator Goedde** stated that Idaho has not identified who pays sales tax. In response to a question from **Senator Goedde, Mr. Hancock** said that would depend on to what extent an area that is property wealthy is also wealthier in terms of money spent and sales tax paid. In other words it would depend on the relationship between property values and disposable income.

Representative Jaquet asked if moving the M & O under the 3% budget cap would shift it to a budget model. **Mr. Hancock** said it would result in a reduction of the levy rate from .003% annually as long as property values continue to increase by over 3% per year.

The meeting was moved to the JFAC room for the afternoon.

Co-Chair Senator Keough called the meeting back to order after lunch and explained the goal for this afternoon was to identify different issues that the committee wants to move forward on using the survey that was discussed earlier as an outline. **Senator Keough** explained that no decision or vote on what to send to the legislature would be made today. Once items are decided on, more information will be gathered and the items will be discussed in detail at a future meeting. A simple majority today of eight members will be enough to carry an item forward voted on by a show of hands. **Senator Keough** continued on to say that the idea for this committee is to have a free flowing discussion about these different ideas from each member. She encouraged members to feel free to discuss issues that were not included in the survey if they are relevant.

Under the first topic on the survey, Assessments/Valuation, the following items were considered.

< Require disclosure of purchase price

Representative Lake suggested the committee keep this particular issue on the table. He said there are some questions that need to be answered regarding privacy issues and confidentiality of information when requiring full sales price disclosure. He said that the state had full disclosure in the past and did away with it and he would like to know why.

The issue will move forward.

< Freeze values at purchase price

Representative Jaquet said that she thinks that this is one of the basic tenants of the two initiatives that are on the table including Proposition 13. She said that she would be interested in an analysis of what some of the down sides for the taxing districts might be if the state was to look at this. In her opinion this is something that should be kept on the table so the committee can gain understanding and be able talk to our constituents in regard to what the initiatives are

trying to do.

Representative Lake said that he has a really big problem with the issue because it is asking one group of people to subsidize the services given to another group of people simply because they happen to have bought their home at a different time. Property taxes pay for services and it seems a little disingenuous to have people in two homes side by side receiving equal services and one home being taxed at a substantially different level than the other simply because of when the person bought the house. He said that he has a hard time with even wanting to discuss this particular issue further.

Senator Pearce asked if this item would require a constitutional amendment. **Senator Keough** said yes and if this was something that the majority of the members wanted to continue to explore, that would become one of the questions that would be further researched.

Senator Langhorst said that he does not support this idea based upon what he knows, but he does not want to dismiss it out of hand. He thinks there has been enough discussion at public hearings that it does bear consideration with some of the other ideas that the committee is going to explore. If we do decide not to pursue freezing values then it would be good for this committee to have an official reason why.

Senator Little said that he assumed that there will be a list of pros and cons and costs, shiftees and shifters and if that is the case, he would agree with **Senator Langhorst** to explore it further. In his mind he is somewhat in agreement with **Representative Lake** that the negative consequences outweigh the positive but he thinks it will be difficult for the committee to justify that without doing more research.

Senator Keough explained her intent for this list is if these ideas move forward, the committee will ask the staff to prepare a list of pros and cons and any other research that is relevant to each item. This will put more information on the table and give the committee a better understanding of the ramifications, either positive or negative, of the policy changes that the committee may be recommending will have.

Senator Goedde suggested putting items that require a constitutional amendment under a separate topic. In his opinion several other issues that have been discussed are in that same category. **Senator Keough** said that is an appropriate subsection of our to-do list.

Senator Goedde said that he feels pretty strongly about this because he thinks that this is one of the biggest misconceptions that is being hoisted on citizens of the State of Idaho: is that they think they can sign an initiative and it's going to change the constitution. In his opinion, it would strengthen the committee's resolve and understanding of the issue and maybe that of the public by adding a constitutional amendment section to the list. **Senator Keough** agreed.

Senator Pearce commented that our assignment as a committee is to get the word out to the citizens of the state of Idaho so that they correctly understand what is happening. Through our

hearing process all across the state somebody would have one little piece of information that was be correct and the rest would be false or incorrect. In his opinion the committee needs to generate information to give to the public so that they understand what this part of Proposition One really is. Once the public starts voting on initiatives, propaganda and rhetoric get pretty loud.

A majority of committee members voted to move this issue forward.

< Limit Annual Assessment Increases.

Representative Deal said that he thinks one of the purposes of this interim committee is to try and find a way to stabilize the annual increases in property valuation. There are a lot of people who feel that limiting or stabilizing the assessed value increases is important and he certainly hopes that this would be one of the methods of solving this problem. He would like to study this further and see an analysis of the cost and if it would cause a shift. He added that this is an issue that would take a constitutional amendment.

Senator Langhorst said he does not have a problem studying this further but that he would rather see reforms happen on the tax side rather than the valuation side. In his opinion there is a reason that the constitution calls for market values and he tends to support that.

The show of hands for this issue was unanimous and it will be moved forward.

< Taxing Land and Improvements Differently.

Mr. Hancock explained that this issue had been discussed at a couple of meetings across the state. There are some jurisdictions that tax land more heavily than improvements because they feel like that somehow encourages economic development.

Senator Goedde asked if this would include farm land. **Senator Keough** answered that there is a model in another part of the country where this occurs. **Representative Lake** responded to **Senator Goedde's** question that the state already taxes agriculture land at a different rate now based on the production ability of the land rather than on the market value.

There were not enough votes to explore this issue further.

< Separate Assessments from Market Value.

Mr. Hancock said that this issue was one of the written comments from one of the survey responders but in many respects it is another way of saying what has been said above which are ideas that would necessarily separate assessed value from market value. **Senator Keough** agreed. The committee voted not to include this on the list.

< Using Rolling Average for Assessments.

Senator Goedde explained that what he meant when he wrote this was using rolling average for evaluations. The idea being, when certain areas get huge increases in property, using a five year average would soften the increase somewhat. Conversely, this would also help if we had a down

turn in the economy. He suggested maybe this could go hand in hand with limiting the annual assessment. He thinks areas of rapid growth evaluations are where the committee heard the most vocal outbursts and this makes sense to him as a way to soften the huge increases.

Senator Werk agreed that the potential use of a rolling average would be to dampen those large value increases. During the public testimony it seems that people are really upset about those huge valuation increases every year so he thinks this idea deserves further consideration.

Representative Lake asked Senator Goedde if the county assessors do this to a certain extent today. In other words they go out and do an appraisal on properties, then five years later come back and do another appraisal on the property as required by law. In between times they are rolling that evaluation up because of work that they are doing on other properties around their counties. **Senator Goedde** answered by saying that he believes the statute calls for reestablishing market value every five years. In his county they are trying to assess 20% of the properties each year and then they average in the off year. In effect, getting a small increase each year but each year you are paying based on that valuation. He does not think this quite the same as a rolling average. **Senator Goedde** said that the way he envisions this would be to take the valuation for the last 5 years added together and divide by 5. You would have, in essence, a midpoint and if valuations increased at a steady percentage each year that is what it would be. But if you had 4 years of 5% and then all of a sudden you had a 50% increase in valuation because of something that happened to the property next to yours, it would soften that blow. **Representative Sayler** commented that he had seen examples of this and agreed that it helps slow down the large increases people are experiencing.

This issue will move forward for further review.

< Improve Uniformity of Assessments.

Senator Werk said that this might be an idea to evaluate further whether or not a state run system might be a way of making our assessment process more uniform since everyone blames the state for the problems anyway.

There was not enough support for this issue to move forward.

< Income Basis for Residential Assessments.

Representative Jaquet said there was some talk during the hearings about the fairness of having an apartment building of four or more units assessed on an income approach via a duplex being assessed on market value.

Senator Keough said that her understanding of this item involved using the amount of income someone has or their ability to pay as part of the property tax process. In Sandpoint the committee heard from a gentleman that proposed putting income into the equation of the property taxes. The committee also heard from gentlemen in Lewiston that had a similar concept in that the ability to pay be entered in the equation.

Senator Langhorst said that the committee is definitely talking about two different issues. He explained that the reason that commercial properties are assessed on income basis is that appraisers look at that as the most likely way to find market value. The most likely way to find market value for a house is replacement or using a comparable. **Senator Langhorst** said he would not support the idea of changing the different ways that apartments/duplexes/houses are assessed. He does support the idea of looking at how rates are applied or exemptions based on income when the committee gets to that part of the discussion.

This issue did not receive enough support to move forward.

The next major topic for consideration was to shift property taxes. Under that the following issues were discussed.

< Increase the 50-50 Homeowner Exemption.

Senator Langhorst said increasing the homeowner's exemption might be a shifting of property taxes but in his opinion it is making up for a shift that has occurred since 1982 and he would hope that the committee would refer to it that way. In discussing how to make that up he suggested going back to the 1982 figure when it was first implemented and come up to what it would be today in constant dollars and that be looked at as a reshift back to the original footing. In response to a comment from **Senator Little**, **Senator Langhorst** pointed out that the increase in residential property taxes has been about three times as fast as it has been in commercial since 1982.

Senator Goedde said that if the committee goes forward with this item, they are going to be faced with the same problem that existed when it was originally passed. He suggested indexing it to an inflationary factor, it can be fixed once and for all. His suggestion is the next item on the list.

Senator Little suggested that these issues, as well as including land in the homeowner's exemption be put on a matrix that would show the positive and negative consequences for each one of them. The committee agreed to that.

Senator Keough stated that these three items were not the only issues involved in the category of adjusting the 50-50 homeowners exemption and encouraged committee members to add any issues they feel are important.

In response to a question from **Senator Langhorst** regarding renters being included in the homeowner's exemption, it was decided that would be discussed as a separate issue.

The issues of increasing the 50-50 homeowner's exemption, indexing the 50-50 homeowner's exemption to inflation and including land in the 50-50 homeowner's exemption were moved forward.

In explaining the idea of including renters in the homeowner's exemption, **Senator Langhorst** noted that the committee heard from several people who testified at our public hearings

including landlords and renters that the homeowner's exemption or lack thereof on rental property shifts the burden to renters. He would like to see some analysis of looking at the numbers of single family homes or small rental units and what it would do to add them to the homeowner's exemption. **Senator Goedde** asked where the line would be drawn as to what properties would be included; duplexes, apartments, four plexes, etc. **Senator Langhorst** said if he knew the answer to that question, he would draft legislation and pursue it that way, but he thought that since we have a committee here that has learned a lot this summer and is looking at these other issues this would be the time to explore that.

Senator Little cautioned that adding rentals to the homeowner's exemption might allow second and third homeowner's that do not rent their property to be able to use rental language as an opportunity to get the exemption.

This item will move forward. It was worded as "Bring renters under homeowner's exemption."

< Bring Renters under Homeowner's Exemption.

In further discussion of this item, **Senator Langhorst** said this is a large subject and he is sure it will bring a lot of debate if they were to try and pursue it. He thinks that the committee needs to know raw numbers and get an idea of how it is affecting the renters. He suggested getting information on what has been done in other states and how it has worked. He asked **Mr. Hancock** to be creative and see what he can find.

Senator Jaquet said that she did a bill last year to increase the homeowner's exemption to \$70,000 and to include 30% of the value of the land. This bill had a fiscal impact of at least \$12 million. She thinks it's important that the matrix or study done of these issues include the fiscal impact. She said there is disagreement about what this fiscal impact would do.

Mr. Hancock commented that this ties into the whole issue of budget driven property tax model where you squeeze the balloon and it just pops out somewhere else. He stated that making exemptions simply creates a shift of who pays versus the rate base model of the public schools where no shift occurs. If property is exempted that simply reduces the amount of money that the fixed rate is going to bring in.

Senator Werk said there are some states have actually made their property tax systems more progressive by basing the homeowner's exemption on household income using adjusted gross income. He asked for more information on that.

Senator Keough said that in earlier discussions the committee decided that they did not want to consider income and ability to pay property taxes in future discussions. **Senator Werk** said he was looking at the two things on very different basis. In this case, we are talking about how we want to structure an exemption that we want to provide whereas on the other side we were talking about trying to do the entire property tax based on income. He said in his opinion an exemption system based on income could eliminate the circuit breaker in essence because there would be an income level at which point a person would not pay property tax at all. He has

researched this to some extent and suggested further investigation.

This issue did not receive enough support to move forward.

< Deferring Property Tax Increases Until the Sale.

Representative Saylor said while he recognize this concept is not wildly popular or widely used and is not a general way to provide relief for property tax, he thinks that it has a place in the mix. In his opinion this would be important for long term, third or fourth generation owners of a piece of property around the state in areas such as Payette Lake or Priest Lake or Coeur d'Alene Lake where the families have had parcels of land with cabins for many years that are becoming very expensive. This would provide them with a way of maintaining that property until they decide to transfer that ownership.

Representative Jaquet suggested that reverse mortgages be explored as another form of deferral. She said she has heard these can be quite expensive and suggested looking giving the Idaho Housing Finance Agency authority to make these loans since they already do liens with property and are familiar with the process. She would encourage the committee to look at this further.

Senator Goedde said he does not have a problem with a concept of reverse mortgages but he does have concerns about deferred payments. He asked what happens to the forth or fifth generation that loses their house because their tax debt has exceeded the value of the home. Imagine the outcry then against the property tax system.

Representative Saylor agreed that is a problem. There are some states that have laws on the books that allow deferrals but they do put limits on the percent of the property value that could be incurred as a debt. He thinks there are ways to structure this that could overcome that objection.

Representative Moyle said this was discussed last year in the Revenue and Taxation committee and the idea is becoming more popular in his community. In his opinion the committee would be wise to look at it further.

This issue was moved forward for more discussion.

< Repeal/Phase Out "Developer Exemption."

Senator Corder said that when the committee began, he had hoped there would be discussion about what property taxes should pay for. In his opinion this could set the tone for everything else to be discussed in regards to which exemptions should be kept and which are no longer needed.

Senator Corder said that from what has been debated over the last few years, there is no question that this exemption has to be repealed. He added that when it goes, there are others that need to go with it. He said he would like to see an evaluation of all of the exemptions together,

not one by one but before that can be done a decision has to be made regarding what property taxes should pay for.

Senator Langhorst stated that this exemption has been discussed throughout all of the hearings across the state and by the committee. Due to this fact he suggested that the committee vote on it by itself and then make a recommendation to the full legislature regarding a study of all of the other exemptions that exist.

This issue was moved forward.

< All Other Property Tax Exemptions

Senator Keough asked **Senator Corder** if he would like to discuss a study of all the other property tax exemptions at this time. He said that he would. **Senator Corder** said that he thinks we are past the point of a philosophical discussion and that it is time to be focused. He would like to see a focused approach that looks at every single one of these exemptions, find the nature of their validity and require businesses like Micron, Albertsons, the wind farms, and the small employers to prove that their exemption is still valid. If it is not valid and is not providing more services or at least equal services to what it is costing, then perhaps it time for it to be repealed.

Senator Keough clarified that **Senator Corder's** proposal would be that this committee further explore moving that process to the larger body of the legislature. **Senator Corder** agreed.

Senator Goedde said that he would support **Senator Corder**. Several years ago he thought the answer to sales tax exemptions was to sunset each exemption and have it reviewed every five years. He came to the rapid realization that every time one of those exemptions came up for review by itself, the proponents of that exemption would be here in mass. Nothing would ever get taken away. He thinks that all of the exemptions have to be looked at together rather than doing so a few at a time.

In response to a question from **Senator Little**, **Senator Keough** said it was her understanding that by voting yes, the committee would be voting to study this idea further in order to be able to send a recommendation back to the legislature that they would take a look at all of the exemptions and develop a process by which to measure those and determine whether they are valid and relevant for today. **Senator Corder** said that she was probably more pragmatic than he was. He had hoped that this committee could do it but realizes there is not enough time.

Senator Langhorst offered that this committee send a recommendation to the full legislature suggesting the committee be reinstated next year in order to explore these exemptions. He admitted that it would take about as much effort as what was done on property taxes in general this year.

Senator Keough said her thought is that this is a very important and complex issue and that what is possible or realistic for this committee with the time that is left this year is to make a recommendation and move that forward. If there is enough interest in this to move it forward to

the next meeting her sense would be that the recommendation would go to the full legislature that this be explored further.

This item was moved forward for more discussion.

< Exempt Disabled Vets/Fixed Income/Elderly from property taxes.

Representative Jaquet said that in her research, she saw that in some states they have actually exempted elderly, certain income levels and/or disabled people from levies, supplementals or bond issues. She said the committee heard over and over again from our older testifiers that the predictability of taxes was really hurting them and growth was affecting their property taxes. She suggested studying this further as a way to help lower income or fixed income citizens.

This issue did not receive enough support to move forward.

< Exemption for Handicap Access and Improvements.

Representative Sayler said that was his comment based on some testimony from Coeur d'Alene. This family has a home on the lake on a steep hillside and put in a ramp to be able to access that because they both have some serious physical disabilities. This improvement raised their property value. They tried to get a hardship consideration from the Board of Equalization and were unsuccessful. One of their ideas was that handicap access might be able to get a specific exemption. He said he thought the idea might merit some discussion. If someone makes an improvement to property for reasons such as this, in his opinion, that should be in a hardship category.

Senator Little suggested this and the previous item be dealt with under the circuit breaker discussion in order to make things more uniform. There were some complaints we had about the inconsistency of evaluation. It was the complexity of that section of the code that gave people grief and caused consternation for assessors. **Representative Sayler** said he would have no problem with that as long as it does get consideration

Jason Hancock said that the circuit breaker does appear further down in one of the subsequent categories.

< Increasing Exemption/Repeal Personal Property Taxes.

Representative Jaquet said that some counties are very dependent on personal property tax such as the county in which Monsanto is located in Eastern Idaho. In her opinion it would be helpful to get more information about how this would affect those areas. This issue was moved forward for more exploration and discussion.

< Homeowner Exemption's Tiered With Home Values.

Representative Jaquet said that this was out of Blaine County as a more realistic homeowner's exemption for areas with extremely high property values. If homeowner's exemption is raised to \$70,000 or \$100,000, it would not really benefit people in Blaine and other counties with high property values. The idea would be to put the exemption at a higher rate if the county chose to do

so through a local option.

Senator Langhorst suggested this be discussed under the replacing property tax with other tax section. **Representative Jaquet** agreed. **Senator Corder** agreed also and suggested that local control be added as well. The state needs to find a way to restore the ability for counties to make more of those decisions that have been taken away from them.

The next major survey topic dealt with replacing property taxes with other taxes. Discussion items under this topic are as follows.

Replace property taxes with:

< Local option taxes.

In response to a question from **Senator Keough**, **Mr. Hancock** explained that the items listed under local option taxes were not necessarily all inclusive and he suggested that local option taxes be considered as a general discussion item and the other listed items be part of the further discussion. **Senator Keough** agreed.

Senator Little said he believes this issue of replacing property taxes with another tax is strictly a shift issue; whether it is shifted to an existing tax such as sales or income tax or to a new tax such as a real estate transfer tax on a statewide or local basis. In his opinion, the question is who are the shiftees.

Senator Langhorst said one of the things everyone on the committee realizes is that there is not one solution to the property tax issue that will work for all areas of the state. Something that works in Blaine County, could very well hurt Grangeville or Riggins. That is why local option taxes came up so often and in his opinion this is a bigger issue than just replacing property taxes. He is not sure where the committee wants to go, but there is an emerging issue in Idaho where certain communities are growing much faster than others and the current system is not working for everybody. He looks at local option taxes as a way of giving a little home rule to areas to solve their own problems.

Senator Goedde said that he comes from a community where local option sales taxes have worked very well and he highly supports further investigation of this area.

Senator Little said if his district had a 5% sales tax and Ontario had an 8% sales tax, he would think local option taxes were a pretty good idea also. He is concerned that one of the consequences that comes out of these recommendations is the poor stay poor and the rich stay rich. He suggested that in looking at local option taxes consideration be given to what it does for property tax rich districts verses property tax poor districts. **Senator Corder** agreed with this and suggested using a regional idea of local option taxes as good way to allow areas to share the benefits.

Representative Jaquet said that she wants to make sure that the real estate transfer tax does stay on this list because it came up several times in the hearings with regard to having growth pay for

itself.

Representative Sayler said they have heard that refrain that there is no “one size fits all” solution. He likes this idea of local option because it does deal with these different needs and there are some valid concerns. He also wanted to mention the impact fees because we did hear a number of times that growth is not paying for itself. He would like to see that kept in the mix of things to look at.

Representative Moyle agreed with **Senator Little** and said the committee needs to be careful to not cause a shift in the wrong direction. Being close to the Oregon border does hurt certain communities.

Senator Keough said that the question before the committee at this point is whether or not we want to move forward for further exploration and discussions of general concepts of local option taxes. She asked for a raise of hands of those who would like to move that discussion forward.

A majority voted in favor of moving the issue forward.

It was decided by the committee that the topic would be left without specifics in order to facilitate a more thorough review and discussion for the next meeting.

Senator Little said that he thought increasing license fees was outside of the jurisdiction of the committee. **Senator Keough** agreed that it is a different issue that has some constitutionality questions.

Senator Langhorst pointed out that everything the committee does about property taxes affects county and city government budgeting. He said that locally, transportation is an issue for which a solution has not been found. He said that while he can not speak to the constitutionality of having increased vehicle fees on this list, he does not want to rule anything out until we have a complete discussion on local options. If there are things the committee members want to exclude, he suggested that be done at the next meeting. **Senator Keough** noted that quite a bit of time could be spent on local option taxes and reiterated that a more thorough discussion will be held at the next meeting.

< Increase the Circuit Breaker.

Senator Keough explained that earlier there were several other issues including disabled veterans, fixed income, elderly, and handicap improvements that the committee decided to roll into this discussion of circuit breaker and increasing the circuit breaker.

Representative Jaquet said there were some conversations in the hearings about bonding it and making it available to all low income people rather than just senior citizens. She suggested this be part of the discussion as well as raising the income requirement to \$25,000 or more if it is based on a couples joint income. She said an analysis would need to be done to figure out what income level would be appropriate. She said she would also like to discuss making it so the

people over a certain age do not have to requalify with the county each year.

This will move forward for more discussion.

< Broaden Sales Tax to Fund Property Tax Relief.

Representative Jaquet said that there is a lot of data available on this issue because there was an interim committee that looked at it in the past. She suggested that the committee could make a similar recommendation to that which **Senator Corder** made regarding a study of all of the property tax exemptions earlier. **Senator Corder** said that income tax should also be a part of this discussion. If we're going to have this discussion about exemptions and a discussion about what property taxes should pay for we would inevitably include sales tax and income tax. He said the committee needs to have a good and valid reason for causing any shift in property taxes.

Representative Lake commented that many of the things that this committee has discussed or is yet to discuss require a shift to state tax revenues, whether it be moving M&O schools or school facilities funding or indigent care or courts. **Representative Lake** thinks this just becomes an integral part of the discussion and thinks it is a given that part of the discussion will include replacing property tax with state revenues as these other issues are discussed.

This issue moved forward.

< Repealing Income Tax Cuts to Fund Relief is the next item.

There was no support to move this item forward.

< State Assuming Costs of Some Local Programs.

Senator Keough said that some of the things that the committee heard across the state from the counties and again this morning is that the state has passed along costs to the counties that have caused the counties to raise property taxes. The most frequently cited programs were indigent care and the costs of the courts. She said that according to the counties, if the state would remove those unfunded mandates it would be a form of property tax relief.

This issue was moved forward for more discussion.

< Replacing the School M&O Levy with State Revenue.

Representative Lake said this is a key to property tax relief as far as he sees it. In his opinion, if the committee does not do something in this area, all of the other work is futile. **Senator Langhorst** asked if this includes removing the property tax replacement cap or if it goes beyond that. **Representative Lake** explained that the way he reviews these proposals is 1) do we remove the maintenance and operations of schools from property tax and substitute it with another tax or 2) do we put a 3% cap on maintenance and operations of schools, their property tax portion. That eludes to the question that was asked of Mr. Jensen in the testimony that was given this morning. In **Representative Lake's** opinion these two items need to be discussed together because the committee may end up choosing one or the other.

Senator Werk said the two proposals seem very different to him. In his opinion the committee can look at replacing all or part of the M&O money with state revenue without deciding whether or not to cap M&O money at 3%. **Senator Werk** said he thinks the committee should look at the issues separately.

Senator Werk went on to discuss replacement of the M & O. He stated that the difference between sales tax revenue and property tax revenue for school districts is a tough balance to know if the state will continue to fund them properly over the years. He also added that funding M & O with state revenue will cause the loss of local control to some extent.

In response to a question from **Senator Little**, **Senator Keough** said she viewed the two as separate items although she could certainly support discussing them together. She said regarding if the topic of taking school M&O off of local property taxes and moving it to the state were to be moved forward, she would ask the staff to analyze the cost as if the entire 3 mils were removed as well as if it were removed in phases.

Representative Lake said to make it easier he would withdraw comments about considering the two together because they both need to be discussed.

The issue of removing the school M & O from property tax to state revenue received enough support to move forward for more discussion at the next meeting.

< Put the school M&O under a 3% budget cap.

Senator Langhorst said that he would not be able to support the state putting a 3% budget cap on all districts because it will affect areas that are growing very rapidly and those that are not very differently. In his opinion one policy will not work for every school district.

Representative Lake explained that this is a 3% cap on the M&O. **Mr. Hancock** clarified that a 3 % budget cap on M&O would function like the 3% budget cap on other taxing districts so the new construction that is being added in rapidly growing areas is added above and beyond the 3% cap.

Senator Langhorst asked if this means it does not constitute a change away from the rate based system for maintenance and operation. **Mr. Hancock** answered that this would be a change away from the rate based system because, setting new construction aside, if the base values of property across the state grew faster than 3% in a given year, the rate would decline much as it does with all of the other types of property taxes that are under the 3% cap.

Senator Little asked if putting a 3% cap on M & O would have an effect on the equalization down the road. **Mr. Hancock** said it would not impact equalization in the sense that if the district is entitled to get \$10 million dollars under the formula they are going to get \$10 million dollars what ever the combination of state and local funds is. He said that the issue about the equality of impact on an idea like this depends on how you implement it. If the 3% cap were implemented in the same way the 3% cap works for all of the local governments right now, areas

with rapidly increasing property values like Blaine or Valley county would see their M&O levy rate dropping precipitously and in areas with stable or flat property values the M&O levy would stay right at 3 mills. The other way that this can be done in order to keep the statewide M&O levy rate at 3 mills would be to set the 3% budget cap at the statewide level. Then look at what is happening with statewide values and if they exceed the 3% budget growth, lower the statewide M&O levy rate. **Mr. Hancock** said he ran a hypothetical scenario of what would happen if a 3% M&O budget cap were implemented for public schools for budget year FY07. Based on what has happened with property values statewide, the results showed that the M&O levy rate statewide would go down from .003 to .0027 and that would be the rate for everybody, if it were implemented that way.

Representative Jaquet said that **Senator Bunderson** has stated that the 3% caps are really artificial. She said it is fine to talk about statewide rate but what about Grangeville and districts that are losing students. She said Grangeville is doing the right thing by consolidating and trying to achieve economy and that adding another artificial cap might actually be punishing them just because they have this extraordinary loss of students. **Representative Jaquet** said she has a real problem with going in this direction. She thinks that over 60 districts have already passed supplementals out of the 114 showing that most districts obviously do not have enough money. In her opinion it makes no sense to put a further cap on them.

Senator Little asked what would happen if school boards were given the authority locally to be in charge of their own M&O levy. **Mr. Hancock** said you would have 114 school districts able to set levy rates. The difficulty in doing that would be in the equalization component. If the formula determines again that the district is supposed to get \$10 million dollars and they are raising \$6 million of it locally, why would they not cut their M&O rate to zero and have the state will pick up the entire \$10 million. He said that unless the state said regardless where a district sets its levy rate, the state will equalize the district as if it still had the 3 mil levy. Then if the school district would have raised \$6 million from their 3 mil M&O levy, the state would give them \$4 million dollars to get to the \$10 million they are entitled to under the equalization formula. If they chose to raise more they could or if they chose to raise less they could. In his opinion this would make the M&O levy not so different from a supplemental levy.

Senator Little said that no matter what is done the issue of the constitutional requirement regarding uniformity of schools will be a factor. He added that a lot of testimony said give us our government back and a lot of the problems were a result of the automatic 3 mil levy.

Senator Little said that even though it is exacerbated by the equalization formula, he wants to more closely examine the idea of giving the schools the authority and responsibility to provide the adequate level of funding. He said that he agrees with **Senator Bunderson** about the cap but also knows that the voters in Gem county will not allow the M&O to go up to 6 mills.

There was not enough support to move this issue forward.

< Exempt Seniors from Paying School M&O.

There was no discussion of this issue and it did not receive support to move forward.

< Take the Cap off Property Tax Replacement and Remove the Line-item from the Public Schools Budget.

Senator Werk said if the state is going to step in and say we are going to provide property tax relief, perhaps the first step is to go back to last time we said we would provide property tax relief and make sure we followed through on that. The cap on property tax relief simply places a cap on the amount of relief that the state would have committed. He said he is not sure where it belongs in the discussion but if the state is looking at replacing school M&O with some kind of statewide money, it would make sense to go back and pick up what was capped before. In his opinion it is important for the state to follow through on those commitments.

Representative Jaquet said that this is an issue of fairness and she would be interested to see how many districts are affected by the \$75 million dollar cap.

Senator Keough said in her opinion this issue is part of the discussion on replacing school M&O with state revenue but suggested the committee vote on it as it is. There was not enough support to move it forward.

The next major topic is Local Government Budgets.

< Prohibiting or limiting levying for “foregone balances.”

Senator Goedde said he has some concerns about foregone balances because it causes every entity to budget for the maximum allowed. There needs to be some discussion of limits. In his opinion, the foregone balance should be used for one time capital expenditures and not go into the base. That would have a favorable impact of property taxes.

This item will move forward.

< Only Allow New Construction to Be Added to Budgets on a One-Time Basis.

Senator Little said he did not understand this because “new construction” is only new once. It is old construction the next year. **Representative Moyle** said new construction is outside the 3% cap and is an area that needs to be fixed.

This issue will not move forward.

< Include Annexed Property Under 3% Cap.

Representative Moyle explained that the 3% cap has certain exclusions, one of which is new construction which is added into the base which helps cities grow their budgets every year. Another exclusion from the 3% cap is annexations. When the City of Boise annexed that big area last year it was not capped at 3% so their budget grew by that much more money. It is outside the 3% cap.

This issue will not move forward.

< Reduce the 3% Budget Cap currently on taxing entities.

There was no discussion on this issue and it will not move forward.

< Limit Property Taxes to a Certain percent of Assessed Values.

Mr. Hancock explained that this is basically the 1% initiative concept of limiting the tax rate to a certain percentage of the assessed value.

Representative Moyle reminded the committee that this is one of the issues being discussed as an initiative, and in staying true to earlier comments, the committee should explore it further.

Senator Langhorst agreed and said in his opinion this is another one of those issues that need to be aired and that the committee needs to make a deliberate statement about with full examinations. Even though he does not support the idea, he said it should be discussed further.

There was enough support to move it forward.

< Consolidate School Districts at County Level.

Representative Jaquet said she would suggest that long term incentives might facilitate discussion of this locally.

Senator Goedde said Jack Winder, an economist and faculty member at the University of Idaho, says that larger school districts actually cost the tax payers more money for people to run.

Senator Goedde noted that this may not be a good way to provide financial efficiencies.

Representative Lake commented that he chaired a committee a couple of years ago that looked into consolidation of schools and with the present funding formula, it does not accomplish anything. It does not result in any tax savings. In his opinion the appropriate place to look at this is in the Germaine Education committees, not here.

Representative Jaquet wanted to point out that sometimes an economist can make an argument for budget savings or not savings. Think about the children, if we did not have the digital learning academy, we would not be able to provide for our smaller districts. Some of our children in the smaller districts do not have quite the opportunity for education that our larger districts have. **Senator Goedde** said he did not disagree with **Representative Jaquet's** statement but he does not know if that becomes a property tax issue and again he does not think there is any savings generated one way or another.

Senator Little said he intends to agree with the chairman. In his opinion it would make more sense to consolidate highway or fire districts. He suggested that offering incentives for consolidation of some of these services might generate more money to education than forcing school districts to consolidate.

Representative Sayler commented that, as **Representative Lake** has said earlier, there is almost universal opposition to this idea because local school districts are the heart of many communities.

There was not enough support to move this forward.

< Improve Public Participation in Local Budgeting.

Representative Jaquet commented that she did some legislation last year which was not introduced that copied an Oregon model where they mandate that people be appointed to work with the governing body to work on budgets. She said one of her frustrations has been that people really do not have ownership of the budgets and if people were more engaged in the budget process, there might be some reduction expenditures.

This issue was moved forward for more discussion. **Senator Keough** noted that she was not sure how the state could mandate that people go to their budget hearings but there will be more discussion on that issue.

< Allow Lowering of Levies by Local Voter Initiative.

Representative Moyle said that as the committee held meetings across the state it was apparent that Northern Idaho citizens are really upset by the property tax issue but that Southern Idaho citizens are not so discontent with their taxes or local government. His idea is to allow the local areas the option, if they are not happy with their taxes, to vote on lowering the levies knowing up front what services they would lose and what it would cost them. This would give some local control back to people concerned about the budgets in their areas.

This issue will not move forward.

Other Proposals are as follows.

< Improve Availability and Affordability of Reverse Mortgages.

Representative Jaquet said that this was discussed earlier under the deferred property tax issue. **Senator Keough** agreed and said that it would be included in part of that discussion. She added that further exploration of deferring property taxes would have a subset that would include reverse mortgages and their availability and affordability. She added that the discussion will also include looking to the Idaho Housing Finance Association as an agency that could offer these loans.

This issue will move forward.

< Refunding Leftover Money to Former Owner When Property is Sold for Back-taxes.

Senator Langhorst said he can not see a reason why this is not already law.

Senator Keough stated that there are members of the legislature that would oppose this idea.

Senator Werk said he could understand the feeling about it and thinks it is a nice cause but in his opinion it does not fit in the property tax relief committee at this point.

Representative Jaquet said she did argue against this on the floor in the House last year because of the issue of personal responsibility. She added that during the public hearings county treasurers spoke against the idea because it would put them in the real estate business.

Senator Keough explained that there are groups that have worked on this issue in the past and continue to look at it as an issue. She added that there are some treasurers in the state that have interest in helping to find a solution and have experience with the issue that have offered ideas individually but not collectively at this point through the Association of Counties. The issue would become whether or not this committee wants to spend more time discussing this at this time recognizing that there others out there that are working on it.

The issue will not move forward.

Representative Lake suggested the committee consider freezing property taxes for one year as an option in case they are unable to come up with a workable solution between now and this legislative session. **Senator Keough** stated that this issue is obviously very complex and **Senator Corder** rightfully pointed out that there is a larger philosophical framework that we have not dealt with yet. In her opinion leaving this option on the table and moving it forward would allow some breathing room for the property tax payer.

Representative Jaquet asked when this was done before around the time of Proposition One, were budgets frozen or assessments. She asked also what is simpler to freeze. **Representative Lake** said that as he recalled that assessments were frozen.

Senator Werk asked if this was a constitutional issue. **Representative Lake** answered that to the best of his knowledge it is not. It would take the form of the exemption from taxation any increase in the assessed valuations for that year.

This idea will move forward for more discussion.

Representative Jaquet said that the committee had not talked about school construction bonds. On some of tax bills the biggest items for schools is the amount being paid for school bonding. She said if the state were to accept more responsibility toward the construction of schools there would be a nexus there on growth and maybe this committee should also look at. This would be direct property tax relief if the state engaged more in the construction of the existing bonds as well as new bonding.

Senator Keough said that is an issue that she has worked on over the years. In her opinion, under the local option tax discussion that was moved forward there will be a discussion about impact fees and how they work and possibly how they might be expanded for schools.

She suggested that since the issue of the state taking more responsibility for school construction is in front of the Supreme Court, the committee wait to discuss it at another time. The committee agreed to that.

Representative Lake suggested that after committee members receive a copy of the list of items that were moved forward for more discussion, they prioritize from 10 to 1, which ones to discuss first with 10 being the most important.

Representative Lake said that he would like to have information that will need to be gathered and prepared on the issues before the next meeting. He asked the Tax Commission and Legislative Services to be ready for this. That way the committee will be ready to decide if legislation is necessary.

The meeting was adjourned at 4:00 p.m with the next meeting being scheduled for October 7, 2005.